



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 9/14/2000

GAIN Report #NZ0050

# **New Zealand**

## **Agricultural Situation**

### **Agribusiness Report - August**

### **2000**

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**Report Highlights: Zespri 2000/01 Kiwifruit Forecast**

**New Zealand Wool Industry to be Restructured**

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Includes PSD changes: No

Includes Trade Matrix: No

Unscheduled Report

Wellington [NZ1], NZ

## **LIVESTOCK AND PRODUCTS**

### ***New Zealand's Red-Meat Consumption Declines***

New Zealand domestic consumption of red meat has fallen 30 percent in the six months to July 2000, as consumers resist high retail prices, which look to go even higher with the falling New Zealand dollar. New Zealand trade members said retail meat prices had risen 27 percent in the past 12 months and many consumers had switched from expensive cuts to cheaper meats such as mince (ground beef). Others had gone over to cheaper white meats, and others had stopped eating meat because they could not afford it. The New Zealand dollar has fallen nearly 20 percent versus the US dollar over the past 12 months.

Beef prices, depending on the cuts, are retailing up to between NZ\$19 and \$30 a kilogram (U.S. \$8.17 and \$12.9) and retailers said these could go higher if the dollar falls any lower. Retailers had absorbed a lot of the price rises and are not sure they can absorb any more. Retailers believe that if prices do not get some relief soon then the impact on red meat, particularly the amount of promotional activity that goes on, could be quite significant. Promotions will stop because the retailers will not be able to get a margin out of it.

### ***New Zealand Meat Company Looks to Use Argentine Quota***

North Island meat company Affco, is looking at supplying organic lamb to Britain through unused Argentinean EU quota. New Zealand's annual EU quota of 226,700 tonnes is normally filled by New Zealand exporters, but British demand for organic lamb opens up the possibility for Affco to export free-range farmed, organic-certified Argentinean lamb through an Argentinean company. Argentina had 20,000 tonnes of unfilled EU quota. The possibility of such a venture had arisen from Affco opening an office in Buenos Aires in May. The Argentine Government would have to approve use of the quota.

### ***NZ Pushing China for Wool Access***

New Zealand is still pushing China for improved access for wool at the highest levels of Chinese leadership, and has secured agreement for talks in October. China has agreed to release the second half of the 2000 quota to provincial authorities for allocation to importers. However, the slow, cumbersome and bureaucratic quota allocation system was limiting export opportunities for New Zealand woolgrowers. New Zealand is pressing China to replace the current arrangements with a new system which would be WTO-consistent and which would allow New Zealand exporters to establish long-term commercial relationships with their clients.

### ***Restructuring of New Zealand Wool Industry***

In July 2000, Australian consultants, called in by New Zealand's Wool Board to propose recommendations for a restructuring of the industry, recommended the producer board be brought to a close, several of its subsidiary arms privatized and its NZ\$116 million (US\$50 million) reserves divvied up. They also recommended that levies paid by farmers on wool sales be cut from 5 percent to 1 percent (see NZ0038 for more detail). The recommendations were voted on by New Zealand woolgrowers in August to decide the future of the New Zealand Wool Board. 56 percent of farmers who were sent the ballots voted, with 91 percent of these farmers giving a resounding "yes". An implementation team is now being established to oversee the transition of the industry.

## HORTICULTURE

### *New Zealand Vegetable Exports*

The farmgate value of vegetables sold in New Zealand broke the half billion dollar barrier for the first time in 1999 with sales of NZ \$517 million (U.S. \$222 million). However, according to industry estimates, increased acreage, excellent growing conditions and high yields lead to depressed market prices for the onion and potato industry in 1999/2000. It is estimated that due to the current lower produce prices, up to 20 percent of commercial growers will leave the industry.

For New Zealand onion growers the low prices came on the back of a below average season in 1998/99, when produce quantity forced average quality down. The New Zealand onion crop entered an already oversupplied export market, because of record crops worldwide. The EU stock was high quality and the volume was estimated to be up 40 percent on 1998. The European onions were also exported to Japan, New Zealand's second largest market.

Potato growers received NZ\$60-\$80/tonne (U.S.\$26-\$34) this year, compared with NZ\$300/tonne (U.S.\$129) in 1999. Several supermarkets sold top-quality washed and pre-packed potatoes at NZ\$0.25c/kg (U.S.\$0.11). At this price, growers say they cannot cover harvest, handling, grading and packaging costs, let alone growing costs.

Production of some key green vegetables, including broccoli and lettuce, increased as production expanded. This again led to a general trend of lower prices.

The volume of squash exported in the 1999/00 year was 92,057 tonnes, up from the normal range of between 68,000-80,000 tonnes. The cooler summer temperatures delayed maturity in most growing areas. As a result immature fruit reached the Japanese market. This shortened the New Zealand season up to five weeks, as many Japanese importers were not prepared to take the risk with early season New Zealand fruit and consequently did not start buying until mid-February.

### *Zespri First Season Forecast*

Zespri, New Zealand's kiwifruit marketer is forecasting a full year net distributable return of NZ\$430 million (US\$185 million) for the 2000/01 year, 4 percent up on the previous year's NZ\$413 million (US\$178 million). This equates to an average per tray supplied return of NZ\$6.79 (US\$2.92) against NZ\$7.90 (US\$3.40) in the 1999/00 season. The first forecast of the season, which will be updated monthly during the selling period, is based on a total crop submit of 66 million trays, considerably up on the 54.2 million tray crop last season. The forecast return reflects the impact of generally slower sales for the season to date in most markets, bar Japan where ZESPRI GOLD sales have been outstanding. The traditionally quiet retail period over the northern hemisphere summer holidays has increased the challenge of trying to make up a revenue after a difficult start to selling, particularly in Europe, in an over supplied and sluggish fresh fruit market. The markets have also had to combat customer and consumer resistance to the disproportionately large volume of small sized GREEN and ORGANIC kiwifruit which has seen the premium ZESPRI brand pitched against Chilean product.

The forecast average return per tray for GREEN kiwifruit of NZ\$6.61 (US\$2.84) against NZ\$7.88 (US\$3.39) last season, is a result of retail prices being dragged down by the avalanche of too many

small sized fruit. Prices are very high for the small volume of large sized fruit but the amount is too low to compensate for the millions of trays of smaller fruit. The late exit of Italy and head to head competition with Chile has also impacted sales. Organic kiwifruit has suffered too, with the forecast average return per tray slipping from NZ\$9.95 (US\$4.28) to NZ\$7.05 (US\$3.03), a result of a big increase in volumes and the profile skewed to small sizes. Another key factor has been that this year a smaller percentage of the bigger crop has gone to the high earning Japan market where over 80 percent of organic shipments have been fumigated, causing retailers to either delist the product or run minimal programs. The launch of GOLD kiwifruit has had a generally positive but mixed response from a wide variety of markets. It has surpassed all expectations in Japan and Zespri are pleased with its performance in Northern Europe and the USA. The average price per tray is forecast at NZ\$9.49 (US\$4.08) versus NZ\$14.68 (US\$6.31) last season.

### ***Pipfruit Industry Structure***

The domination of monopoly apple marketer Enza by corporate interests has brought calls for the immediate deregulation of the pipfruit industry. Two separate appeals have been made for the New Zealand Government to act quickly to remove Enza's almost sole right to export the NZ\$600 million (US\$258 million) apple crop now Enza is significantly controlled by investment firms Guinness Peat Group and FR Partners (see NZ0043). Four members of the two corporate firms now sit on Enza's board of directors, with one as chairman. The new board has commissioned a review to investigate measures for making Enza more efficient, improving performance in export markets and making the company more responsive to the needs of its grower clients. It will also consider the desirability of listing the company on the New Zealand Stock Exchange and inviting the public at large to participate.

However, in regard to deregulation, the new chairman believes the export monopoly was Enza's greatest asset and will not support losing Enza's statutory, near monopoly protection. This is much to the despair of some pipfruit growers who are appealing for deregulation. It is thought by industry groups that it is not appropriate for a corporation to have a monopoly. These companies are urging the Government to move quickly and warn the corporate raiders off their review, because they will not have protective legislation for long. The Minister of Agriculture however, has stated that deregulation will be reviewed but that no change will take place in the 2000/01 year.

## **WINE**

### ***Projections for Wine Exports***

New Zealand wine exports are projected to grow to NZ\$275 million (U.S.\$118 million) by 2003, and to around NZ\$600 million (U.S.\$258 million) by 2010. This is respectively a 83 percent and 300 percent increase from the NZ\$150 million (U.S. \$64.5 million) earned by wine exports in the year to March 2000. Competition from imports on the domestic market is fierce, with foreign wine holding a market share of around 40 percent. The increasing competition is forcing on-going restructuring in the industry. Vineyard size is increasing as wineries seek economies of scale, while changes in retail and distribution systems are challenging many wineries to find new ways to promote their products and access consumers.

## **DAIRY**

### ***Colombia Targeted by NZDB***

The New Zealand Dairy Board sees large opportunities for sales to Colombia. It opened an office in the capital, Bogota, in March this year and sales have grown rapidly. The Board had hoped to reach NZ\$10 million (U.S. \$4.3 million) in sales in the first 12 months, but it is already clear that the target will be well exceeded. The country has a sizeable middle class and there is a strong demand for sophisticated milk products.

### ***New Zealand Could Surpass EU***

A report from the New Zealand Ministry of Agriculture and Forestry states that New Zealand has the potential to surpass the European Union as the world's dominant dairy exporting country. The proportion of world dairy trade supplied from New Zealand is expected to increase substantially, and will be predominantly at the expense of EU's market share.

### ***New Zealand Dairy Board 1999/00 Financial Results***

The New Zealand Dairy Board's sales reached nearly NZ\$7.7 billion (U.S.\$3.3 billion) in 1999/00. The Board declared a surplus over milk payout to dairy companies of NZ\$361 million (U.S.\$155 million), up NZ\$40 million (U.S.\$17 million) on the previous year, and a return on assets of 19.5 percent compared with 17.4 percent in 1998/99. There was a NZ\$100 million (U.S.\$43 million) increase in shareholder value and a return of 8.6 percent above its weighted average cost of capital of 11 percent; last year's return was 6.4 percent. Payments for milk totaled NZ\$3.1 billion (U.S. \$1.3 billion), NZ\$500 million (U.S.\$215 million) up on the previous year. Commodity product sales revenue was up NZ\$161 million (U.S.\$69 million) at NZ\$2.9 billion (U.S.\$1.2 billion). The Board's high-value speciality ingredients and foods business, NZMP, brought earnings before interest and tax of NZ\$334 million (U.S.\$144 million), a NZ\$70 million (U.S.\$30 million) increase.

### ***NZDB Look at Changing Milk Type***

The New Zealand Dairy Board is looking at the feasibility of changing the type of milk produced by New Zealand dairy cows. Research has suggested that milk containing A1 beta-casein protein may contribute to heart disease and diabetes. Milk containing the A2 protein does not. The Board is discussing forming a joint venture with a South Island-based biotechnology company, A2 Corporation. The company and the Board hold world patents on the research and genotyping of cows to produce milk without the A1 protein. Some 20 percent of New Zealand dairy cows are already pure A2 producers. However, the Board is being extremely cautious in its approach and has reported that several years' more work was needed before any concrete conclusions could be reached.

## **FORESTRY**

### ***Construction of LVL Plant in New Zealand***

Carter Holt Harvey's (one of New Zealand's largest forestry companies) NZ\$132 million (U.S.\$57 million) laminated veneer plant in New Zealand that is presently under construction, will produce 80,000m<sup>3</sup> of LVL per year at full capacity in 2002. 90 percent of production will be exported to Australia, Asia and Japan. Carter Holt Harvey is already Australia's leading supplier of LVL. Demand is forecast to rise by 20 percent annually and the plant will consume almost 200,000 m<sup>3</sup> of radiata pine per year when it reaches full production. Carter Holt has consents for a second continuous press line that would double LVL production to 160,000 m<sup>3</sup>.